

**THE NATURAL HISTORY MUSEUM  
TRUSTEES' AUDIT & RISK COMMITTEE**

**43<sup>rd</sup> Meeting on Thursday 12<sup>th</sup> February 2009**

**Present**

Sir David Omand in the Chair  
Professor Dianne Edwards  
Dr Derek Langslow  
Mark Richardson (co-opted member)

**In Attendance**

Dr Michael Dixon (Director)  
David Thorpe (Head of Audit and Assurance)  
Neil Greenwood (Director of Finance)  
Alan Carr (Head of Finance)  
David Kennedy (Manager, National Audit Office)  
Sarah MacQueen (Manager, PKF)  
Martin Burchmore (Partner, Kingston Smith)  
Jan Day (Committee Secretary)

***ACTION***

**1 APOLOGIES FOR ABSENCE**

- 1.1 Oliver Stocken (Chair of the Board of Trustees), Damian Brewitt (Director, National Audit Office) and Nick Buxton (Partner, PKF) sent their apologies.

**2 DECLARATIONS OF INTEREST**

- 2.1 There were no declarations of interest.

## **ACTION**

### **3 MINUTES OF THE MEETING HELD ON THURSDAY 13<sup>TH</sup> NOVEMBER (PAPER TAC 1/2009)**

3.1 The minutes were accepted as a true record of the meeting.

### **4. MATTERS ARISING FROM THE MINUTES**

4.1 Audit and Assurance Staffing – para 5.10 The outsourcing of some Internal Audit work to specialist auditors was working well. IT auditors had completed penetration tests on the Museum's firewalls and financial auditors had completed a key financial control review.

4.2 Energy costs – para 6.7 The Museum had not made any recent savings on electricity as this had been procured at a fixed rate through the Office of Government Commerce (OGC) in October. Gas will be procured through OGC in April and there maybe some cost savings. The Director of Estates was looking at alternative ways to procure energy which maybe more cost effective than OGC contracts.

4.3 Fixed asset register – para 8.5 Departments had been asked to confirm that all assets over £50k on the fixed asset register were still in use.

AC 4.4 It was agreed that the Head of Finance would report back to the Committee on the outcome of the fixed asset exercise.

### **5 DIRECTOR'S REPORT ON SIGNIFICANT CONTROL ISSUES IDENTIFIED SINCE THE LAST MEETING (PAPER TAC 2/2009)**

5.1 The Director presented his paper

5.2 Security of radio-active collection items – follow up - a workplan for completion by the end of February had been agreed to meet (a) Metropolitan Police Anti-terrorism Squad (SO15) requirements; and (b) the Museum's external Radiological Protection Adviser (RPA) recommendations. The concerns were radon gas, 'radon daughters' and ambient levels of radiation. Radon gas was not a problem as the store was adequately ventilated. 'Radon daughters' (radon contaminated dust particles) were to be managed by use of specialist vacuum cleaning equipment. The specimens were looked at infrequently, therefore, security devices will be upgraded so that they can be checked quickly to rule out tampering.

5.3 The longer term plan to relocate specimens to Aldermaston remained possible but the Metropolitan Police had concerns about the mechanism and cost of safe transit There was also the issue of how scientific access to the collection items could be guaranteed. The key risk for the Museum was reputational if items were stolen.

5.4 Peer review for Museums and Galleries - a DCMS peer review team of three people visited the Museum on 8-10 December 2008 to review strategy and operations against a range of criteria. A positive report was received on 6<sup>th</sup> February 2008. There were a series of recommendations the majority of which were already underway. It was noted that some of the action being taken by the Museum had not in the time available been detected by the team. DCMS were looking to find a mechanism to evaluate the performance of museums and galleries other than targets and performance indicators. However, the criteria in the Sir Brian McMaster report focused heavily on excellence in the arts and translating the criteria into the context of this Museum was quite complex. The team did not review the Museum's scientific work which they acknowledged was effectively reviewed by the trustees Visiting Group process.

## **ACTION**

- Trustees
- 5.5 Concern was expressed that a team of three for two days was not adequate for the task. It was noted that the Chair of the Board of Trustees had met with the team. However, it was suggested that trustee participation as part of the review team would be desirable and should be recommended to DCMS.
- 5.6 The impact of the economic climate on the NHM – visitor numbers in December and January showed no detrimental effects. Retail and catering income were ahead of the prior year. It was noted that the catering contract had been awarded to new caterers in September 2008. The two temporary exhibitions, *Darwin – The Big Idea* and *Wildlife Photographer of the Year*, were both exceeding visitor number and income targets.
- 5.7 Darwin200 - the members congratulated the Director on the excellent press coverage of Darwin, the Darwin exhibition and the Natural History Museum.
- 5.8 Funding scenarios for 2010/11 - in January the Museum received a DCMS request to consider the impact of a possible 1.5%, 2% or 3% reduction in capital and resource grant in aid from previously advised levels for 2010/11. The Director had met with the Secretary of State for Culture, Media & Sport on 11<sup>th</sup> February 2008. The Secretary of State was in discussions with the Chief Secretary to the Treasury advocating the case for excluding museums and galleries from any cuts. Treasury was considering the argument that the sector would suffer a double blow if external commercial income was reduced due to the impact of the recession as well as grant in aid.
- MD
- 5.9 There will be a paper and presentation on an alternative budget scenario at the Board of Trustees on 24<sup>th</sup> February 2009. If any cuts in expenditure and activities were required the intention of NHM Directors was that they should be decided on a long term strategic view rather than on an opportunistic basis.
- 5.10 Staff opinion survey - in October staff were invited to take part in an employees' opinion survey. The results presented a positive picture with all trends in opinion moving in a positive direction. Presentations to staff were being held to explain the results and future actions. The survey was good practice and will be repeated annually and assist the Museum when it applies for IiP re-recognition in 18 months time.
- 5.11 Pay Award 2008 - The Museum had resubmitted proposals to the Treasury based on a two year pay deal and was awaiting their approval. Once an agreement had been reached the increase will be backdated to 1 August 2008.
- 5.12 Fundraising events - in October the Museum launched a new fundraising campaign for capital projects post the completion of DC2 and numerous events had been held. Given the economic climate the current intention was to build a new network of potential donors and sponsors to be cultivated for future 'asks'.
- 5.13 Chair of National Museum Directors' Conference - in December the Director allowed his name to go forward as a nominated candidate for the Chair of the National Museum Directors' Conference. He was elected unopposed to the Chair, from 1<sup>st</sup> April. It was noted that the work was highly complementary to the Directors NHM advocacy work. The Chairman and members congratulated the Director on his appointment.
- 5.14 Adverse weather conditions – The Director praised staff who had battled through the adverse weather to get to work, on Monday 2 February so that the Museum was able to open for reduced hours. Nearly 3,000 visitors were welcomed.

## **ACTION**

- MD 5.15 FOI request - an appeal had been made against the Museum's decision to use an exemption to withhold information in response to an FOI request for details of NHM consideration of DC2 commercial sponsorship from Anglo-American. The Head of Audit and Assurance conducted the appeal, reviewed the process and upheld the decision. If the requestor was not content they could now apply directly to the Information Commissioner. In addition, the audit and assurance review made recommendations for improving the corporate engagement process. In addition, the Museum is to run refresher courses on writing for disclosure as a result of the new Information Commissioner's model publication scheme which was more onerous on the Museum.
- 5.16 The Museum monitored the environmental performance of sponsors in order to minimise potential risks. It was noted that there was a list of current supporters of DC2 on the museum's website.
- DT 5.17 NHM's ICT firewalls – an external company of IT consultants had carried out a security review of the Museum firewalls. Three reports had been received and although a small number of critical risk vulnerabilities had been identified overall the consultants considered the system to be good and security to be above average. A meeting had been arranged between the IT consultants, the Museum's IT team and internal audit to discuss the action needed.
- 5.18 It was also noted that the classifications used by external specialist auditors were not always synonymous with those used by the Museum's audit team. Management time was, therefore, needed to bring them into line.
- DT It was agreed that the Head of Audit and Assurance would present a follow up report at the May meeting on the action taken.
- 6 DIRECTOR OF FINANCE'S REPORT ON THE CURRENT FINANCIAL POSITION (PAPER TAC 3(a) & (b) /2009)**
- 6.1 The Director of Finance presented his paper.
- 6 (a) Darwin Centre Phase 2 – Programme Directors Report**
- 6.2 Now that the main construction phase of the project had been completed, Louise Charlton had taken over the Chair of the DC2 Trustees' Subcommittee from Sir Ian Henderson. The final account had been agreed with BAM (ex HBG) which exceeded the available budget by c£0.5m. The Museum and its professional advisors were happy with the settlement.
- 6.3 The first staff moves into the building took place in January 2009 and the next moves were due in March. There had been changes in working practices e.g. laboratories were now shared facilities and scientists no longer sit with their collections. These changes did not raise any significant control issues.
- 6.4 Cabinet installation had commenced, though there had been significant slippage. The public offer was making good progress and there were no major concerns. Tenders for the external landscaping had been received and were on budget. Site clearance will start mid March with completion in July/August. An OGC Gateway Review was scheduled for mid May and will focus on readiness for service. The public opening remained scheduled for September 2009 and the formal date will be announced in May/June.
- MD

## **ACTION**

6.5 The green, amber and red traffic light system used for scoring risk on the DC2 Programme Report had been given precise definitions to ensure consistency in reporting. As a result, scoring varied slightly from previous reports. The only element that was less easy to track in terms of delivery was the audio visual exhibition displays, therefore, contingency time had been built into the programme.

### **6(b) Financial Review for the period April 2008 – December 2008**

6.6 Forecast year end outturn for the General Fund – The Forecast year end outturn for the General Fund had yet to be finalised but was expected to be circa £500k above the £2.870m shown in the Director of Finance's report. The extra funds would enable the Museum to accommodate the settlement with BAM which exceeded the available budget by c£0.5m. The forecast for the General Fund was based on detailed revisions and reforecasts from budget holders and business unit managers. Budget holders and business unit managers had also identified requests for carry forwards where there maybe a potential for savings if carry forwards were not approved and returned to the general fund. The Director of Finance explained that he would take a hard line on requests to carry forward where revenue projects had not begun.

6.7 Income generation – Income from retail, catering and special exhibitions was doing well, although there were challenges with the conference and events business.

6.8 Currency fluctuations – The Museum bought a lot of journals in foreign currencies mainly US dollars. It was noted that Departments were required to accommodate such increased costs within their current budgets.

NG  
AC 6.9 It was agreed that a brief report on the impact of currency fluctuations on the Museum's 2009/2010 income and expenditure budgets would be presented to the May Audit & Risk Committee meeting.

### **7 HEAD OF AUDIT AND ASSURANCE PROGRESS REPORT TO FEBRUARY 2009 (PAPER TAC 4/2009)**

7.1 The Head of Audit presented his paper.

7.2 Final Reports: Legal compliance - The Audit & Risk Committee (a) noted there were there were no significant findings in the report on Legal compliance mechanisms; and (b) received an assurance from the Head of Audit that the recommendations were in the process of being actioned.

7.3 Reviews in progress - Planning and design consultancy (PDC): discussions were taking place on the scope of the review.

7.4 Risk Management – The Head of Audit had held meetings with all heads of department and their senior staff to discuss the newly revised Guide to Effective Risk Management and the standard risk register. The Guide and the register were now on the Museum's intranet and would be used to record each department's key risks from 2009/10 onwards. The adoption of the new risk register should improve the consistency of assessing and recording risks and the quality of information going up to the Director's group.

7.5 Head of Audit and Assurance Progress Report - Members confirmed that they were happy with the level of the information in the Head of Audit's report.

## **ACTION**

- 7.6 It was agreed that:
- DT (a) Appendix 1 of the Head of Audit's progress report would be amended to include the risk category of audit reports;
  - DT (b) a recently completed audit report would be circulated at each Audit & Risk Committee meeting; and
  - DT/MD (c) departmental risk register presentations by heads of department shall be reinstated from the May Audit & Risk Committee meeting.

## **8 EXTERNAL AUDIT AND ACCOUNTING TIMETABLE 2008/2009**

### **(a) NAO/PKF AUDIT STRATEGY (TAC 5 (a) /2009)**

- 8.1 The Committee reviewed the strategy and approved the NAO Audit fee.
- 8.2 Prevention and detection of fraud - The PKF Manager, in accordance with international standards, asked the Audit & Risk Committee their view on how susceptible the Museum might be to cases of fraud and the mechanisms they used to seek Assurance in respect of preventing and detecting fraud. It was noted that the museum was considered to be less susceptible than the average given (a) the controls in place; and (b) the regular presentations to staff and managers on their responsibilities for preventing fraud.
- NG 8.3 It was agreed that a report on the mechanisms in place to provide an assurance to the Committee in respect of the prevention and detection of fraud would be presented together with the Draft Statement on Internal Control to the May meeting.
- DT
- 8.4 Personal data - The NAO tabled a paper on how they managed personal data obtained as part of their audit testing. It was noted that NAO requests for personal data would be kept to a minimum, data would be encrypted and NAO would agree in advance with the Museum how data will be secured. Members noted that the NAO must give adequate notice to the Museum if existing electronic files need to be redacted by the Museum.

### **(b) KINGSTON SMITH STRATEGY (TAC 5 (b) /2009)**

- 8.5 The Committee reviewed the strategy and the Kingston Smith Audit fee was approved. The Chairman asked for it to be recorded that the Committee were expecting there would be no increase in the 2010 NAO and Kingston Smith audit fees.

### **(c) DIRECTOR OF FINANCE'S REPORT ON THE ACCOUNTING TIMETABLE AND ACCOUNTING ISSUES (TAC 5 (c) /2009)**

- 8.6 The Committee reviewed the timetable.
- 8.7 It was noted that: (a) a suitably qualified individual with Charity SORP experience, would be engaged for the duration of the accounts production period; and (b) a further meeting would take place with PKF to identify the critical items required in the draft consolidated financial statements given to PKF on 1<sup>st</sup> June 2009 for the final audit.
- NG
- 8.8 The timetable was tight again this year with little time between the Trustees meeting on 14<sup>th</sup> July and the parliamentary recess on 21<sup>st</sup> July. Depending on progress and the review of the accounts at Audit and Risk Committee on 2<sup>nd</sup> July, it may be necessary to arrange the Chairman's action to approve the accounts prior to the Trustees meeting on 14 July.

## **ACTION**

- NG 8.9 The co-opted member had met with the Director of Finance to discuss the processes in place to achieve the year end timetable and was content with the action being taken. He had made one small recommendation that the detailed schedules of the action required across the Museum would be provided to PKF.
- NG 8.10 It was agreed that:
- NG (a) the Director of Finance would ask the Board of Trustees if the accounts, could if necessary, be authorised by Chairman's action before the 14<sup>th</sup> July Board meeting; and
- MD (b) consideration would be given to moving the date of the July 2010 Board of Trustees meeting closer to the date of the Audit & Risk Committee.
- 9(a) STATUS REPORT ON OPEN POINTS FROM AUDITORS' MANAGEMENT LETTER RECOMMENDATIONS 2007/2008 TAC 6 (a)/2009**
- 9.1 The Head of Finance presented his paper on the actions being taken by management in regard to open points raised in the auditor's management letters. The recommendations were either in hand or had been actioned.
- 9 (b) INVESTMENT POLICY AND PERFORMANCE (TAC 6(b) /2009**
- The Head of Finance presented his paper.
- 9.2 A review had been conducted of the investment policy and performance of investments held by the three Funds of the NHM group i.e. Special Funds Trust, Cockayne Fund and Benevolent Fund. It was noted the investments were not of significance to the group's financial performance. The review concluded that the investment strategies of the Funds continued to be appropriate for the aims of the Funds.
- 9.3 A review of the performance of the most significant Investment Manager – JP Morgan Asset Management was also conducted. This found that overall its performance had been typical of other investment managers. It was therefore unlikely that any significant gain could be expected from a change in investment manager.
- 9.4 It was agreed that:
- NG (a) A detailed review of the investment policy and performance of investments held by the three Funds would be carried out periodically. A desk top review will be carried out annually; and
- AC (b) An annual high level review would be carried on the institutions holding or managing fund investments.
- 9.5 Cash Balance Investment Policy – it was noted that the Museum had a Cash Balance Investment Policy which detailed the financial institutions with which cash could be invested. This was signed off by the Board of Trustees periodically. The majority of the Museum's cash was deposited with the Office of the Paymaster General (OPG).
- 10 ANY OTHER BUSINESS**
- 10.1 There was no other business

***ACTION***

**11. DATE OF THE NEXT MEETING**

11.1 The next meeting will be held at 10.00 a.m. on 7<sup>th</sup> May 2009.

**KEY TO ACTION INITIALS**

Michael Dixon - MD

Neil Greenwood - NG

David Thorpe - DT

Alan Carr - AC